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KORN/FERRY INTERNATIONAL

# Board of Directors

# Annual Study

# Retail Industry

# Supplement 1983

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## BOARD OF DIRECTORS ANNUAL STUDY

For the past 10 years, Korn/Ferry International has surveyed the board practices and policies of America's largest industrial and service corporations. Again this year, we invited 50 of the largest retailers plus selected smaller ones to participate in our nationwide survey. We are pleased that 30 responded, more than half of which have assets over $2 billion. Because we believe it is beneficial for retail boards to be able to compare and evaluate their practices with others in the same industry, we have, for the sixth consecutive year, isolated their results in this special supplement to our Tenth Annual Board of Directors Study.

Retailers continue to be among the leaders in having women and ethnic minorities on their boards and representation of both these groups went up again this year. Reflecting a preference for management experience, senior and retired executives of other companies are the two largest sources for outside retail directors. But this year, women comprise the third largest.

Seventeen percent of the retail respondents now have a corporate ethics committee. This is not only up from 12 percent last year, but is more than double the average for all the survey participants.

Retailers have increasingly moved into the mainstream of U.S. corporations in the method and amount of outside director compensation. This year 80 percent report paying an annual plus per meeting fee, up from 68 percent five years ago. And while total compensation went up only three percent this year, it has risen 51 percent over the past five years. At a current average annual fee of $16,950, retail directors are now very much on a par with the $16,990 payed by all respondents. However, the highest paid retail directors do not receive the equivalent of their peers at other companies, $18,980 vs. $21,720.

The percentage of retailers offering their directors the option of deferring fees until retirement went up dramatically from 30 percent last year to 53 percent this year. And the percentage paying retirement benefits to their outside directors has more than doubled to 13 percent this year. While retailers offer travel expense reimbursement and directors liability insurance, they generally trail all respondents in providing other benefits to outside directors.

We hope you will find these highlights and the other results included in this supplement to be meaningful and useful. We welcome your suggestions on how we might enhance next year's study.

Lester B. Korn

Richard M. Ferry

February 1983

## SUMMARY OF FINDINGS

On a question-by-question basis, the following findings relate directly to retail industry respondents. (Table 1) Where appropriate, comparisons are made with all responding corporations* in our study.

### 1. Size of Board (Table 2)

The average board of directors of responding retail companies consists of 13 members. This is up one from last year and equals the average for all responding companies.

### 2. Inside Director vs. Outside Director (Table 2)

Retail boards average five inside directors and eight outside directors – one more inside and one less outside director than the average for all respondents. Although the majority (73%) prefer that more than half their directors come from outside the company, only 17 percent prefer three-quarters or more be outside directors, the smallest percentage of any responding group.

### 3. Board Composition (Table 3)

The boards of the retail respondents are largely comprised of outside directors with management experience. Senior executives and retired executives of other companies, the largest categories, both experienced significant gains this past year (the former from 76% to 83% and the latter from 55% to 67%). Women, now on 63 percent of these boards, have become the third largest category, up from 52 percent last year. And 83 percent of the retail respondents with revenues in excess of $2 billion have female representation, the largest percentage of any group responding to the survey. (Table 3A)

This past year, the composition of retail boards underwent major shifts. Besides the three categories cited above, others that experienced significant gains include:

- Ethnic minorities – From 12% last year to 33% this year.
- Non-U.S. citizens – From 6% to 13%.
- Attorneys who do not provide legal services to the company – From 21% to 30%.
- American international executives – From none last year to 10% this year.

Women and ethnic minorities, who made noteworthy advances this past year, again generally are drawn from categories which have extensive business experience. Women are predominantly senior executives of other companies

*611 corporations responded to our Tenth Annual Study. Industrial corporations account for 74 percent of the total of which 219 have sales over $1 billion. Banks and financial institutions account for 12 percent, insurance companies for nine percent and retailers for five percent.

(32%), academicians (21%) and former government officials (11%). Minorities mostly come from the ranks of senior executives of other companies and attorneys who do not provide legal services, both at 40 percent. (Table 3B)

Groups experiencing significant decreases include:

- Investment bankers– From 33% last year to 20% this year.
- Professional directors– From 21% to 13%.
- Major shareholders– From 49% to 37%.
- Commercial bankers– From 27% to 20%.
- Attorneys who provide legal services to the company– From 36% to 30%.

**4. Is the Chairman also the CEO?**
**Is the CEO also the COO? (Table 4)**

Seventy-seven percent of the retail respondents report that their chairman is also their chief executive officer– up from 70 percent last year. Down, however, is the percentage reporting that their chief executive officer is also their chief operating officer– from 39 percent to 37 percent.

**5. Committees (Table 5)**

The audit, executive and compensation committees continue to be the most widely reported standing committees among retailers as they are among all respondents. The percentage of retailers having an audit committee (97%) or an executive or compensation committee (83% each) has changed very little over the past year. There were, however, significant increases in the percentage reporting finance, nominating and corporate ethics committees.

This year, 17 percent state that they have a corporate ethics committee– up from 12 percent last year and more than double the average for all respondents. A finance committee is now reported by 47 percent of the retail respondents– compared to 39 percent last year; 63 percent report a nominating committee, up from 52 percent last year. (Table 5A) The nominating committee also continues to play an important role in committee appointments and, along with the executive and compensation committees, in the management succession process.

The public affairs committee is the largest, averaging six members this year. The corporate ethics and benefits committees are the smallest, averaging three each. The audit, compensation and corporate ethics committees are composed entirely of outside directors while the executive and finance committees have the most inside directors, averaging two each. (Table 5B) Eighty-seven percent of the retail respondents annually review committee appointments.

Among retailers, committees generally meet less frequently than they do among all respondents. The compensation, finance, public affairs, nominating and corporate ethics each average at least one less meeting per year. (Table 5C) Only 40 percent of the retailers believe that the time directors devote to committees is increasing– down considerably from the 64 percent stating this belief in last year's study.

**6. Compensation (Table 6)**

Eighty percent of the participating retailers compensate their ouside directors on an annual plus per meeting fee basis, 17 percent pay an annual fee only and only one company pays a per meeting fee only.

– Annual and Per Meeting Fee (80% of the Respondents)

This method of compensation is increasingly popular among retailers as it is among all respondents. Just five years ago, only 68 percent of the retailers reported using this method of compensation. They report a total average annual compensation of $16,950, only three percent more than the $16,380 reported last year and almost equal to the average for all respondents ($16,990). The total is comprised of an average annual fee of $12,400 and an average per meeting fee of $631.

The "upper quartile average" for retail directors, included for comparative purposes, is $25,410–13 percent more than the $22,500 averaged last year.

– Annual Fee Only (17% of the Respondents)

The average annual fee is $12,500. Although this is up slightly from last year's $12,430, it is still considerably below the $16,100 average for all respondents.

**7. Additional Compensation Information (Table 7)**

Eighty-seven percent of the retail respondents pay their outside directors additionally for serving on committees. Of these, 73 percent pay a per meeting fee only, averaging between $470 and $600 per meeting for members of the various committees. Nineteen percent pay an annual plus per meeting fee, averaging between $1,680 and $3,230 per year. The eight percent, who pay an annual fee only, pay an average annual fee of $6,000. (Table 7A) Chairmen are generally compensated at a higher rate than committee members. Seventy percent of the responding retailers annually review board committee fees.

Both the percentage of retailers who raised board fees and the amount of the increase are down this year compared to last year. Only 47 percent raised fees to their outside directors, an average of $2,560. Last year 67 percent raised them an average of $2,770. The amount of this year's increase is also below the overall average increase of $3,170. Thirty percent of the retailers contemplate an increase during the next 12 months, projecting an average raise of $2,380.

The highest paid outside retail director earns, exclusive of any consulting fees, an average $18,980 per year for board services. This is 13 percent below the $21,720 average for all respondents. The upper quartile average in this category is $27,500 for retail directors compared to $36,550 for all directors. (Table 7B) Thirty percent of the retail respondents have outside directors who also receive consulting fees – the highest percentage of any group responding to the survey.

Fifty-three percent of the retailers have compensation plans that allow outside directors to defer fees until retirement. This is up significantly from the 30

percent reporting fee deferral plans last year. Furthermore, the percentage of retailers providing remuneration to their outside directors after their retirement has more than doubled, from six percent last year to 13 percent this year. Travel expense reimbursement (provided by 90% of the retailers) and directors liability insurance (provided by 87%) are other commonly offered benefits to retail directors. On the whole, however, retailers lag behind all the respondents in the benefits they provide. (Table 7C)

Eighty-seven percent of the retailers have procedures whereby directors annually review and establish appropriate compensation for chief executive officers as well as for other senior officers.

**8. Board Practices and Policies (Table 8)**

Retail boards meet an average of seven times per year, one less than the average for all respondents. Fifty-three percent hold at least one of these meetings outside of their headquarters office or major facility city.

The estimated number of hours retail directors devote annually to board-related matters decreased to 93 from 100 hours last year. This is considerably below the 123 hours averaged by all respondents (Table 8A) and brings the hourly rate retail directors earn above the rate earned by all respondents. If compensated on an annual plus per meeting fee basis, retail directors earn $182 per hour – 32 percent more than the $138 per hour overall average.

During the past year, outside directors resigned from 40 percent of the retail boards, mostly because of retirement. Seventeen percent of the retail respondents added new inside directors and 47 percent added new outside directors this past year. They continue to predominantly use the traditional and informal means of recommendations of the chairman and other board members in identifying and selecting new outside directors. The use of the formal nominating committee, however, continues to be strong. (Table 8B) According to 77 percent of the retailers, corporate experience is the primary consideration for asking a prospective director to sit on the board. (Table 8C) Twenty-three percent of the retailers had a prospective director decline an invitation to sit on their boards – up from 15 percent last year. The primary reason for declining continues to be the time demands involved.

Fifty-three percent of the retail respondents require all their directors to sign the Form 10-K instead of the simple majority required by the Securities and Exchange Commission – up from 49 percent last year.

**9. Board Issues (Table 9)**

As with all respondents, financial results is the most important issue facing retail boards today. When asked to rank the importance of various issues, 96 percent ranked it first, second or third. Strategic planning was second (ranked first, second or third by 78%) followed by managerial succession and day-to-day operations. Financial results also gets the most attention at board meetings. Retailers estimate that 37 percent of board meeting time is devoted to it.

## TABLE 1 – PARTICIPATING COMPANIES

**Thirty of America's major retailers participated in our Tenth Annual Study.**

| Size (Sales) | No. of Retailers | % |
|---|---|---|
| Under $2 billion | 12 | 40.0% |
| $2 billion and over | 18 | 60.0% |
| TOTAL | 30 | 100.0% |

| Stock Exchange | No. of Retailers | % |
|---|---|---|
| New York Stock Exchange | 24 | 80.0% |
| American Stock Exchange | 2 | 6.7% |
| Other | 4 | 13.3% |
| TOTAL | 30 | 100.0% |

## TABLE 2 – PRESENT NUMBER OF BOARD MEMBERS

**What is the present number of board members?**

| Size of Company | Average Number Inside Directors | Average Number Outside Directors | Average Number Directors |
|---|---|---|---|
| Under $2 billion | 4 | 6 | 10 |
| $2 billion and over | 5 | 9 | 14 |
| Average | 5 | 8 | 13 |

## TABLE 3–BOARD COMPOSITION

**3A. Are one or more of the following individuals on the board?**

| | 1981 Retailers | 1982 Retailers | 1982 All Companies Surveyed |
|---|---|---|---|
| Senior Executive (other companies) | 75.8% | 83.3% | 88.2% |
| Retired or Previously Employed Corporate Officer | 51.5% | 46.7% | 46.8% |
| Commercial Banker | 27.3% | 20.0% | 33.6% |
| Attorney (provides legal services to the company) | 36.4% | 30.0% | 28.2% |
| Academician | 45.5% | 46.7% | 50.4% |
| Investment Banker | 33.3% | 20.0% | 23.7% |
| Major Shareholder (not officer of the company) | 48.5% | 36.7% | 30.4% |
| Attorney (does not provide legal services to the company) | 21.2% | 30.0% | 33.7% |
| Former Government Official | 12.1% | 10.0% | 27.2% |
| Female | 51.5% | 63.3% | 41.2% |
| Ethnic Minority Representative | 12.1% | 33.3% | 23.2% |
| Non-U.S. Citizen | 6.1% | 13.3% | 17.0% |
| International Executive (American) | — | 10.0% | 7.5% |
| "Professional" Director | 21.2% | 13.3% | 19.5% |
| Retired Executive (other companies) | 54.5% | 66.7% | 66.3% |

**3B. From which of the above functions are most women and ethnic minorities drawn ?**

| Function | % Women | % Minorities |
|---|---|---|
| Sr. Executives (other companies) | 31.6% | 40.0% |
| Academicians | 21.1% | 10.0% |
| Former Government Officials | 10.5% | 10.0% |
| Attorneys (do not provide legal services) | 5.3% | 40.0% |

## TABLE 4–CHAIRMAN ALSO CEO, CEO ALSO COO

**Is the Chairman of the Board also the Chief Executive Officer?**
**Is the Chief Executive Officer also the Chief Operating Officer?**

| | % CEO | % COO |
|---|---|---|
| Yes | 76.7% | 36.7% |
| No | 23.3% | 60.0% |
| No Response | 0.0% | 3.3% |
| TOTAL | 100.0% | 100.0% |
| | (30) | (30) |

## TABLE 5—COMMITTEES

**5A. Which of the following standing committees does the board have?**

| Committee | 1981 Retailers | 1982 Retailers | 1982 All Companies Surveyed |
|---|---|---|---|
| Audit | 100.0% | 96.7% | 98.2% |
| Executive | 81.8% | 83.3% | 78.4% |
| Compensation | 78.8% | 83.3% | 86.3% |
| Finance | 39.4% | 46.7% | 35.7% |
| Nominating | 51.5% | 63.3% | 56.6% |
| Public Affairs | 18.2% | 16.7% | 11.8% |
| Corporate Ethics | 12.1% | 16.7% | 8.0% |
| Benefits | 36.4% | 36.7% | 32.9% |

**5B. What is the composition of each committee?**

| Committee | Average Number Inside Directors | Average Number Outside Directors | Average Number Directors |
|---|---|---|---|
| Audit | 0 | 4 | 4 |
| Executive | 2 | 3 | 5 |
| Compensation | 0 | 4 | 4 |
| Finance | 2 | 3 | 5 |
| Public Affairs | 1 | 5 | 6 |
| Nominating | 1 | 4 | 5 |
| Corporate Ethics | 0 | 3 | 3 |
| Benefits | 1 | 2 | 3 |

**5C. How many committee meetings were held during the past twelve months?**

| Committee | 1981 Average Number of Meetings | 1982 Average Number of Meetings |
|---|---|---|
| Audit | 4 | 3 |
| Executive | 3 | 4 |
| Compensation | 3 | 3 |
| Finance | 3 | 2 |
| Public Affairs | 3 | 2 |
| Nominating | 2 | 1 |
| Corporate Ethics | 1 | 1 |
| Benefits | 2 | 3 |

## TABLE 6—COMPENSATION

**Annual and Per Meeting Fee (80.0% of the Respondents)**

| Annual Fee Amount | % |
|---|---|
| Under $5,000 | 4.2% |
| $5,000-$10,999 | 16.7% |
| $11,000-$13,999 | 41.7% |
| $14,000 and over | 37.4% |
| TOTAL | 100.0% |
| | (24) |
| Average Annual Fee | $12,400 |

**PLUS**

| Amount Per Meeting | % |
|---|---|
| Under $250 | 8.3% |
| $250-$499 | 4.2% |
| $500-$599 | 45.8% |
| $600-$799 | 29.2% |
| $800 and over | 12.5% |
| TOTAL | 100.0% |
| | (24) |
| Average Per Meeting Fee | $631 |

**EQUALS**

| Total Annual Compensation | % |
|---|---|
| Under $5,000 | 4.2% |
| $5,000-$10,999 | 8.3% |
| $11,000-$13,999 | 8.3% |
| $14,000-$16,999 | 33.3% |
| $17,000-$19,999 | 16.7% |
| $20,000 and over | 29.2% |
| TOTAL | 100.0% |
| | (24) |
| Average Total Annual Compensation | $16,950 |

**Annual and Per Meeting Fee (continued)**

| Type and Size of Company | Average Compensation | Upper Quartile Average |
|---|---|---|
| Retailers | $16,950 | $25,410 |
| Banks & Financial Institutions | $15,310 | $24,650 |
| Insurance Companies | $13,950 | $22,920 |
| Industrials | | |
| Under $200 million | $ 8,720 | $13,000 |
| $200 million-$399 million | $11,900 | $16,800 |
| $400 million-$599 million | $14,580 | $24,800 |
| $600 million-$999 million | $15,430 | $22,300 |
| $1 billion-$2.999 billion | $18,300 | $25,300 |
| $3 billion-$4.999 billion | $26,760 | $30,620 |
| $5 billion and over | $24,960 | $34,610 |
| Average | $16,990 | $26,500 |

## TABLE 7–ADDITIONAL COMPENSATION INFORMATION

**7A. Are outside directors paid an extra fee for serving on a committee?**

| | % |
|---|---|
| Yes | 86.7% |
| No | 13.3% |
| TOTAL | 100.0% |
| | (30) |

**If yes, how are they compensated? (86.7%)**

| Compensation | % |
|---|---|
| Per Meeting Fee Only | 73.1% |
| Annual and Per Meeting Fee | 19.2% |
| Annual Fee Only | 7.7% |
| TOTAL | 100.0% |
| | (26) |

**7B. How much did the highest paid director receive in 1982 for all board service activities exclusive of any consulting arrangement?**

| Amount | % |
|---|---|
| Under $7,000 | 3.2% |
| $7,000-$10,999 | 6.7% |
| $11,000-$13,999 | 10.0% |
| $14,000-$16,999 | 10.0% |
| $17,000-$19,999 | 16.7% |
| $20,000-$24,999 | 20.0% |
| $25,000 and over | 16.7% |
| Unspecified | 16.7% |
| TOTAL | 100.0% |
| | (30) |
| Average | $18,980 |

**Highest paid director**

| Type and Size of Company | Average Compensation | Upper Quartile Average |
|---|---|---|
| Retailers | $18,980 | $27,500 |
| Banks & Financial Institutions | $20,700 | $34,070 |
| Insurance Companies | $21,420 | $39,460 |
| Industrials | | |
| Under $200 million | $11,120 | $20,300 |
| $200 million-$399 million | $16,940 | $27,270 |
| $400 million-$599 million | $15,750 | $23,380 |
| $600 million-$999 million | $17,460 | $25,000 |
| $1 billion-$2.999 billion | $24,090 | $36,160 |
| $3 billion-$4.999 billion | $30,580 | $42,500 |
| $5 billion and over | $36,200 | $49,100 |
| Average | $21,720 | $36,550 |

**7C. What benefits are included in the compensation plan for outside directors?**

| | % Retailers | % All Companies Surveyed |
|---|---|---|
| Travel Expense Reimbursement | 90.0% | 86.4% |
| Directors Liability Insurance | 86.7% | 85.6% |
| Deferral of Board Fees Until Retirement | 53.3% | 55.3% |
| Accident Insurance | 33.3% | 43.4% |
| Travel Expenses for Spouse | 23.3% | 23.7% |
| Matching Educational Gifts Program | 16.7% | 40.1% |
| Life Insurance | 13.3% | 18.8% |
| Medical Insurance | 6.7% | 10.5% |

## TABLE 8—BOARD PRACTICES AND POLICIES

**8A. How many hours (estimated) do directors spend annually on board matters including review and preparation time, meeting attendance and travel?**

| Number of Hours | % |
|---|---|
| 40 and under | 16.7% |
| 41 to 70 | 16.7% |
| 71 to 100 | 13.3% |
| 101 to 160 | 20.0% |
| 161 to 250 | 6.6% |
| No Response | 26.7% |
| TOTAL | 100.0% |
| | (30) |
| Average | 93 hours |

**Hours**

| Type and Size of Company | Number of Hours | Upper Quartile Average |
|---|---|---|
| Retailers | 93 | 147 |
| Banks & Financial Institutions | 114 | 174 |
| Insurance Companies | 107 | 186 |
| Industrials | | |
| Under $200 million | 85 | 138 |
| $200 million-$399 million | 109 | 169 |
| $400 million-$599 million | 107 | 162 |
| $600 million-$999 million | 112 | 187 |
| $1 billion-$2.999 billion | 145 | 198 |
| $3 billion-$4.999 billion | 152 | 217 |
| $5 billion and over | 176 | 147 |
| Average | 123 | 189 |

**8B. How are outside directors located for the board?**

| | % |
|---|---|
| Recommendation and known to board members | 70.0% |
| Recommendation and known to chairman | 63.3% |
| Selection or nominating committee | 46.7% |
| Recommendation and known to other corporate officers | 23.3% |
| Executive search | 13.3% |
| Referral from executive acquaintances | 10.0% |

**8C. What are the primary considerations in asking a prospective director to sit on the board?**

| | % |
|---|---|
| Corporate Experience | 76.7% |
| Functional Experience | 53.3% |
| Specified Related Experience | 46.7% |
| Prestige | 10.0% |

**TABLE 9—ISSUES**

**What is the relative importance of each of the following issues?**

| | % Ranking #1 | % Ranking #1 or #2 | % Ranking #1, #2 or #3 |
|---|---|---|---|
| Financial results | 58.3% | 83.3% | 95.8% |
| Strategic planning | 21.7% | 56.5% | 78.2% |
| Managerial succession | 4.3% | 17.3% | 56.4% |
| Day-to-day operations | 13.6% | 36.3% | 54.5% |
| Public relations | — | 6.2% | 6.2% |
| Government relations | — | — | 6.2% |
| Mergers/Acquisitions | — | 6.2% | 6.2% |
| Shareholder relations | 5.6% | 5.6% | 5.6% |
| Corporate ethics | — | — | 5.6% |

## United States Offices

**New York**
Executive Offices
277 Park Avenue
New York, New York 10172
Telephone: (212) 371-3770
Telex: 236344

**Los Angeles**
Corporate Offices
1900 Avenue of the Stars
Los Angeles, California 90067
Telephone: (213) 879-1834
Telex: 691388

911 Wilshire Boulevard
Los Angeles, California 90017
Telephone: (213) 879-1834

**Atlanta**
260 Peachtree Street
Atlanta, Georgia 30303
Telephone: (404) 577-7542

**Boston**
50 Milk Street
Suite 1511
Boston, Massachusetts 02109
Telephone: (617) 423-0336
Telex: 951131

**Chicago**
120 South Riverside Plaza
Chicago, Illinois 60606
Telephone: (312) 726-1841
Telex: 283503

**Cleveland**
National City Center
1900 East 9th Street
Cleveland, Ohio 44114
Telephone: (216) 861-5656

**Dallas**
One Dallas Centre
350 North St. Paul
Dallas, Texas 75201
Telephone: (214) 651-1801

**Denver**
7800 East Union Avenue
Suite 740
Denver, Colorado 80237
Telephone: (303) 694-3062
Telex: 450281

**Houston**
1100 Milam Building
Houston, Texas 77002
Telephone: (713) 651-1834

**Newport Beach**
1300 Dove Street
Suite 200
Newport Beach, California 92660
Telephone: (714) 851-1834

**Palo Alto**
2 Palo Alto Square
Palo Alto, California 94306
Telephone: (415) 956-1834

**San Francisco**
The Transamerica Pyramid
600 Montgomery Street
San Francisco, California 94111
Telephone: (415) 956-1834

**Stamford**
Three Landmark Square
Stamford, Connecticut 06901
Telephone: (203) 359-3350
Telex: 236344

**Washington, D.C.**
1825 K Street, N.W.
Washington, D.C. 20006
Telephone: (202) 822-9444
Telex: 236344

## International Offices

**Brussels**
209A Avenue Louise
B-1050 Brussels, Belgium
Telephone: (02) 649.94.67
Telex: (846) 24390

**Caracas**
Multicentro Empresarial Del Este
Edificio Libertador
Nucleo A, Pisa 15, Oficina A-155
Av. Libertador
Chacao, Caracas 1060, Venezuela
Telephone: (02) 32-21-11, 32-93-77
Telex: (395) 24608

**Frankfurt**
Ulmenstrasse 30
6000 Frankfurt/Main
West Germany
Telephone: 0611/728357-59
Telex: (841) 4189707

**Guadalajara**
Lazaro Cardenas 3043
Col. St. Jardines Del Bosque
Guadalajara, Jalesco
Telephone: 22-84-41, 22-84-93

**Hong Kong**
69, Wyndham Street
Eighth Floor
Hong Kong
Telephone: (05) 247356, 243683
Telex: (780) 66343

**Kuala Lumpur**
No. 43, Jalan Yap Kwan Seng
Kuala Lumpur, Malaysia
P.O. Box 2595
Telephone: 925140
Telex: (784) MA 31268

**London**
2-4 King Street
St. James'
London SW1Y 6QL, England
Telephone: (01) 930-5524
Telex. (851) 91 4860

**Madrid**
Calle Felipe IV, No. 9
Madrid 14, Spain
Telephone: (1) 410-4900
Telex: (831) 49062

**Melbourne**
35 Collins Street
Melbourne
Victoria 3000, Australia
Telephone: 03-654-4588
Telex: (790) AA 33157

**Mexico City**
Montes Urales 641
Lomas de Chapultepec
C.P. 11000 Mexico, D.F.
Telephone: (905) 540-6166
Telex: (383) 1771951

**Monterey**
Daniel Zambrano 525
Col. Chepe Vera
Monterrey, Nuevo Leon Mexico
Telephone: (905) 48-43-55.

**Paris**
23 Place Vendome
F-75001 Paris, France
Telephone: (01) 296.84.35
Telex: (842) 212686

**Rio de Janeiro**
Av. Nilo Pecanha 50
Conjunto 1417
20020 Rio de Janeiro, R.J. Brasil
Telephone: (021) 262-4367, 262-4516
Telex: (391) 1124250

**Sao Paulo**
Avenida Indianopolis 80
04062 Sao Paulo, SP, Brasil
Telephone: (11) 549-7133
Telex: (391) 1124250

**Singapore**
27-05 Shell Tower
50 Raffles Place
Singapore 0104
Telephone: 224-3111
Telex: (786) RS 26684

**Sydney**
167 Macquarie Street
Sydney
New South Wales 2000, Australia
Telephone: 221-2122
Telex: (790) AA 70375

**Tokyo**
AIU Building, 7th Floor
1-3 Marunouchi 1-Chome
Chiyoda-Ku, Tokyo 100, Japan
Telephone: (03) 211-6851
Telex: (781) J 23745

**Zug**
Weinbergstrasse 34
6300 Zug—Switzerland
Telephone: (42) 22-22-20